

# STRATEGIC BUSINESS PLAN

Municipal Auditing Department

Roanoke, Virginia

July 1, 2005

## TABLE OF CONTENTS

Section 1. Overview of the Strategic Business Planning Process.....	2
Section 2. Executive Summary.....	3
Section 3. Where Are We Now?.....	6
3.1. Department Description	
3.1.1 Origin and History.....	6
3.1.2 Organization Structure and Operating Budget Details.....	9
3.2 Customers, Mandates and Other Strategic Priorities	
3.2.1 Customers.....	12
3.2.2 Mandates.....	12
3.2.3 Other Strategic Priorities.....	13
3.3 Mission, Key Businesses, and Activities	
3.3.1 Mission Statement.....	14
3.3.2 Key Businesses and Activities.....	14
3.4 Strategic Issues	
3.4.1 External Environment.....	16
3.4.2 Internal Environment.....	17
3.4.3 Strategic Issues.....	20
Section 4. Where Do We Want To Be?	
4.1 Vision and Core Values	
4.1.1 Vision.....	21
4.1.2 Core Values.....	21
4.2 Strategic Goals.....	21
Section 5. How Do We Get There?	
5.1 Strategic Objectives.....	22
Exhibit A – City Charter	
Exhibit B – NALGA Survey	
Exhibit C – Customers	
Exhibit D – IIA Code of Ethics	

## **Section 1: OVERVIEW OF PLANNING PROCESS**

Municipal Auditing began the process of strategic business planning in 1995 when the high performance organization (HPO) initiative was underway. At that time, the entire staff participated in a series of meetings to evaluate the department's mission, vision, and values.

In June 2000, the City of Roanoke adopted a strategic business planning model. At that time, the Municipal Auditing department reevaluated its mission using the strategic business planning model. The entire staff participated in a number of meetings to complete modeling work sheets and develop a revised mission, goals, objectives, key businesses, and performance measures. A completed business plan was adopted on December 31, 2000. In 2004, work began on revising and updating the plan. Various persons on staff were assigned research tasks to complete in preparation for a work shop to be held off-site. During the work shop, the staff debated revisions to the mission and key businesses of the department. The notes from the work shop were used by the Administrative Assistant to draft a new business plan. The revised plan was then reviewed by the Assistant Municipal Auditor and the Municipal Auditor, with revisions made as needed. The final plan was adopted July 1, 2005, and published on the department web site.

## Section 2: EXECUTIVE SUMMARY

The Municipal Auditing department's **Vision** is for the City of Roanoke to have the most accountable and responsive local government possible, one that citizens can trust to use resources wisely and to serve their needs well. We view our department as a catalyst for change, uniquely positioned and entrusted with responsibilities for ensuring that our local government is efficient, effective and ethical.

Created in 1974 through an amendment to the City Charter, the Municipal Auditing department has been assigned the responsibility to examine and audit all City accounts, books, and records that reflect transactions involving financial activities of the City. The department is recognized throughout the State of Virginia and nationally as an accomplished office that was an early adopter of Government Auditing Standards, having adopted the standards in 1991. Our department is one of the few in the nation to have successfully undergone four peer reviews and been found in each case to fully comply with the standards.

The Auditing department has six full time staff serving both the City and Roanoke City Public Schools. The department compares favorably in size and scope to audit departments across the nation. A national study from 2004 shows our peers have an average of 6.4 full time equivalents compared to six (6) for Roanoke. Our cost per billable audit hour is \$53.04 compared to an average of \$80.85 for our peers.

The Municipal Auditor is appointed by City Council and presents audit reports to either the City Audit Committee or School Audit Committee, depending on the subject of the report. Each Audit Committee is a committee of the whole for the respective governing bodies. This structure provides a high level of assurance that the Auditing department is independent in the work it performs related to all other appointed and elected officers. The department works directly with managers and employees throughout the City and School Division to identify and address organizational risks, fraud, waste and abuse.

The Auditing department's work primarily supports the "Effective Government" facet of **Roanoke City Council's Vision**. The Auditing department provides an independent and objective evaluation of the performance of other governmental departments in providing services and complying with laws and regulations.

**Mission:** Municipal Auditing seeks to enhance the performance and accountability of the City of Roanoke by working to ensure that our city government operates efficiently, effectively and ethically.

The Municipal Auditing department has three key businesses:

1. **Auditing:** Conducting financial audits to opine on segments of financial statements. Conducting performance audits to determine if departments are using public resources effectively and efficiently, the extent to which desired results are being

achieved, and compliance with related laws, regulations, and grant provisions. Key activities supporting this business are as follows:

- *Performing financial audits* required by State law and Board of Education regulations.
- *Evaluating operations and systems* based on recognized business standards and standards of Federal, State, and Local government authorities.
- *Collaborating with management* to develop action plans to address control concerns, operational concerns, and compliance issues identified during audit work.
- *Reporting fairly, accurately, and timely*, the results and conclusions from audit work.
- *Performing follow-up audit work* on outstanding concerns from prior audits to provide management and governing bodies with status reports regarding the resolution of outstanding concerns.
- *Developing an annual audit plan* to allocate limited audit resources to those areas with the greatest need.

2. *Advisory Services*: Providing advice and education regarding the management of risks, development of controls, and compliance with laws and regulations as requested by management. Key activities supporting this business are as follows:

- *Performing objective research and analyses* on performance, financial, and operational data for management.
- *Advising management* about trends and changes affecting the control environments in which governments and schools operate.
- *Developing, publishing, and distributing guides* addressing how to develop components of a good system of internal controls.
- *Presenting information to employees and managers regarding internal controls and risk management.*

3. *Fraud, Waste and Abuse – Identify and Mitigate*: Reducing the risk that fraud, waste and abuse will occur by promoting the establishment of a healthy control environment within the organization and by being attentive to signs of fraud, waste and abuse while conducting financial and performance audits. Key activities supporting this key business are as follows:

- *Investigating allegations of fraud, waste and abuse* received from citizens and employees.
  - *Using auditing software on an ongoing basis* to monitor city and school expenditures for risk factors indicating the possibility of fraud, waste and abuse.
  - *Brainstorming, ranking and evaluating risks* related to fraud, waste and abuse in the planning and evaluations phases of every performance audit.
  - *Performing audits of vendors and contractors*, as needed, to verify billings are supported and in accordance with the associated contracts.
- 

The Municipal Auditing department has the following strategic goals:

1. Provide information through our audit reports and management letters that is fresh, informative, and that has the power to influence management and governance decisions, thus enhancing the value of the services we provide.
2. Achieve incremental improvements in the number of hours and days required to perform an audit, thus increasing the number of audits we conduct and the timeliness of our reports.
3. Prepare guides and presentations that promote sound internal controls; increase our efforts to disseminate this information to all employees and managers on a regular basis; pursue all indications of fraud, waste and abuse to the fullest extent possible, thus improving the understanding managers and employees have regarding the importance of sound internal controls and supporting an ethical work environment.

## **Section 3: WHERE ARE WE NOW?**

### **3.1 Departmental Description**

#### **3.1.1 Origin and History:**

April 5, 1973, Andrews, Burket & Co., Certified Public Accountants, recommended to the Roanoke City Audit Committee that the City establish an independent internal audit department reporting to City Council. At that time, the City Auditor's Office was responsible for the City's accounting functions, including work that would be considered by nature to be audit work. A City Charter amendment effective July 1, 1974, split the City Auditor's Office into the Department of Finance (Charter §25.1) and Municipal Auditing (Charter §25.2). The former City Auditor became the first Director of Finance. William L. Brogan was appointed by City Council as the first Municipal Auditor. Mr. Brogan had 13 years experience as a CPA and 6 years as Controller with Roanoke College. Two former City Auditor's Office employees were provided to staff the Municipal Auditing department. The new department rounded out its staff by adding one clerical position. On October 1, 1974, a position for an Assistant Municipal Auditor was created and filled by James D. Grisso, bringing the staff total to five.

Municipal Auditing initially concentrated on performing financial audits in areas such as the Civic Center, Airport, Clerk of the Circuit Court, and School Activity Funds. In the late 1970's, the growing importance of electronic data processing systems prompted the Auditing department to adjust its focus to include evaluating controls over electronic data processing systems. Bob Bird, who had experience in electronic data processing and was employed in the City Information Systems department was recruited and hired to fill an open auditor position in September of 1980 to address this need. The position was eliminated in 1981 due to budget cuts and then reconstituted as an EDP Auditor position in 1982. During the 1980's, the Auditing department developed extensive permanent files on each of the major data processing systems in the City. The massive system evaluations eventually gave way to smaller substantive testing and systems development audits towards the end of the 1980's.

Also during the 1980's, the clerical position took on paraprofessional audit work. That position's responsibility increased to include more responsibility and independence in administrative areas. On July 1, 1990, the Executive Secretary was upgraded to Administrative Assistant to recognize the complexity and responsibility of that position.

From 1981 to 1990, the department utilized one to two summer interns each year. These interns were typically accounting students who had completed their junior year. On May 23, 1991, the intern positions were eliminated in favor of adding a permanent staff auditor position. Up to this point, the staff auditor position required two year's working experience and was equivalent to today's senior auditor. The office was reorganized and the staff positions were changed to the following: EDP Audit Supervisor, Audit Supervisor, Senior Auditor, and Auditor. The supervisor positions

were soon abandoned for the original structure with an Assistant Municipal Auditor, EDP Auditor, Senior Auditor, and Auditor.

Upon Mr. Brogan's retirement in 1990, Bob Bird was appointed Acting Municipal Auditor. Mr. Bird applied for and was appointed to the Municipal Auditor position in 1991. He immediately adopted government auditing standards, sometimes referred to as the yellow book. These standards were issued by what at the time was the United States General Accounting Office. The standards were developed in response to the growing importance of government auditing and the need for standards to ensure quality work. Municipal Auditing revised its policies and procedures to conform to yellow book standards and had a peer review in October 1992 to evaluate its compliance with the standards. The department was evaluated to be fully compliant, and subsequent reviews in August 1996, June 1999, and May 2002, confirmed continued full compliance.

In the late 1990's, the Auditing department researched control self assessment models in anticipation of implementing facilitated self assessments as part of the department's auditing processes. The intent of implementing facilitated self assessments was to enable city departments to assess their controls themselves, facilitated by the Auditing department through the use of self assessment questionnaires and facilitated work shops. It was hoped that this would, in essence, provide 100% coverage of the audit universe on an annual basis. A work shop was conducted in 1999 to assess the EMS billing process. This work shop involved the fire administration, Roanoke Emergency Medical Services (REMS), the City Treasurer's office, Finance, and the contracted third party billing service. While the process provided benefits, it was evaluated as having been unsuccessful in achieving the original goals for facilitated self assessments. The Auditing department decided to use facilitated self assessment on a more limited basis within the normal performance audit methodology. In subsequent years, the model for control self assessment became less popular within the internal auditing profession and was dropped altogether by the Auditing department.

Throughout the 1980's and 1990's the Auditing department performed the financial audit of the School Division's student activity funds. Audits of the City's accounting and payroll systems also included the schools because they were shared systems. These audit services were provided at no charge to the school system. However, the activity funds audits consumed ~ 40% of a full-time equivalent position [700 hours]. The Municipal Auditor requested that the School Division commit to an incremental funding plan that would eventually provide sufficient funds to cover the annual costs of the audit. At about the same time, a School Board member expressed concerns regarding the accuracy of the 1998-99 proposed budget presented by the School Administration. This provided the impetus for both the Board and the Administration to propose a more robust program of internal auditing. The School Division requested that the Auditing department evaluate the budget for accuracy and then requested that the Auditing department prepare a proposal for providing internal audit services. The Auditing department reached a formal agreement with the School Board and School Administration to provide the equivalent of one full time auditor to conduct internal



audits of the division for three years beginning in fiscal 1999. In return, the School Division agreed to transfer funds equal to 125% of the salary midpoint for a Senior Auditor to the Auditing department each year. A new position was hired to accommodate the increased work, bringing the Auditing department's staff size to seven total positions.

In 1999 and 2000, the Auditing department identified significant concerns in the School Division's Human Resources department. Due to the controversy that arose, the relationship with the School Division was nearly severed. In the end, the City Council adopted ordinance 35580-091701 providing for ongoing internal audits of the School Division. Over the course of the next five years, the relationships between the Auditing department and members of the School Board and School Administration steadily improved.

On September 17, 2001, Drew Harmon was appointed as Acting Municipal Auditor due to the retirement of his predecessor, Bob Bird. Mr. Harmon was appointed as the City's Municipal Auditor on October 18, 2001. After other internal promotions, an Auditor position was left open. Due to budget freezes that were necessitated by an economic recession, the auditor position was left unfunded and unfilled. The position remained unfunded through 2005 due to continued budgeting challenges. In 2005, the Municipal Auditor decided to eliminate the position due to ongoing funding problems in the City and to allow the department to move forward with refining its strategic plan and methodology assuming a reduced staff size.

In 2001, the Auditing department made significant revisions to its audit methodology. The existing methodology was primarily designed to review data processing systems, using data flow diagrams and system design questionnaires. The new methodology incorporated the COSO integrated control framework. Planning and research steps were enhanced to incorporate consideration of business plans, client goals and objectives, and client performance measures. Narratives or flow charts were used to document and evaluate control systems. Utilizing this methodology, the Auditing department began conducting more performance related audits. The department conducted the first performance audits of Economic Development, Custodial Services, Building Maintenance, and Occupational Health. Several significant reports were issued in 2001 and 2002, involving management issues and procurement. The audit findings provided the basis for a major review and revision of the City's purchasing procedures.

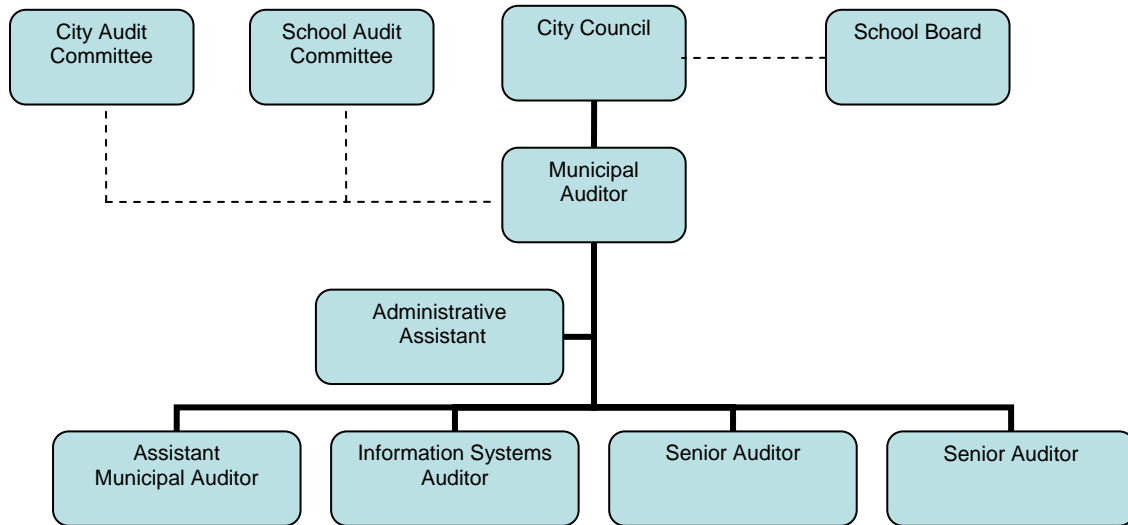
In 2004, the GAO published a substantial revision to Government Auditing Standards. The revisions created a clear distinction between performance and financial audits, eliminating the "financial related" category of audits. The revised standards also specifically addressed concerns with non-audit services and auditor independence. The Auditing department adapted its existing processes to satisfy the requirements of the new standards. Over the course of fiscal 2004-2005, the Auditing department tested new methodology that eliminated flow charts and narratives in favor of process outlines and a risk-based approach. The new methodology specifically addressed

verifying the accuracy and reliability of data, as well as documenting supporting controls that did not fit within the process outline. These controls included aspects of the control environment, risk assessment, and information/communication. The new methodology included the creation of a risk matrix used to identify risks to a process that could then be considered on the basis of likelihood and impact. The risk matrices were used to focus the auditor's process mapping and test work. The new methodology included a greatly improved process for documenting audit findings and developing action plans in cooperation with client management. Completely revised policies and procedures were formally adopted on June 30, 2005.

### 3.1.2 Organization Structure and Operating Budget Details:

Municipal Auditing is an office of professional people who are required to perform much the same work from person to person. The primary factor that differentiates between positions is the experience of each person. The office has been organized in such a way as to recognize a person's experience as being valuable and to enable the department to retain experienced staff. The current organization structure provides for a Municipal Auditor, an Assistant Municipal Auditor, an Administrative Assistant, an Information Systems Auditor, and two Senior Auditors. The structure and size of the department has been relatively stable since the department's creation in 1974.

## MUNICIPAL AUDITING DEPARTMENT ORGANIZATION CHART



The adopted budget for Municipal Auditing in 2004/2005 is as follows:

		Expenses	Cost per Capita
Personal Services =		\$371,197	
Operating Expenditures =	175,978		
- KPMG fees (2005 cost)	<u>(163,383)</u>	12,595	
Internal Services =		40,499	
Total Budgeted Expenditures		<u>\$424,291</u>	\$4.47

*Note: Per capita costs based on population of 94,911.*

*Benchmarking:* As in past years, we utilized a benchmarking survey prepared by the National Association of Local Government Auditors (NALGA) to provide a basis against which we could compare ourselves with other departments. Excerpts from this survey of 81 other localities are contained in *Exhibit B*. The survey classified departments into one of three categories based on staff size. Our department compared favorably to our categorical peers:

Audit Expenditures:	Peers= \$639,920	Roanoke= \$424,291
---------------------	------------------	--------------------

Staff Size:	Peers= 6.4 FTEs	Roanoke= 6 FTEs
-------------	-----------------	-----------------

Cost Per Audit Hour:	Peers= \$50.03	Roanoke= \$40.80
----------------------	----------------	------------------

Cost Per Billable Hour:	Peers= \$80.85	Roanoke= \$53.04
-------------------------	----------------	------------------

## **3.2 Customers, Mandates, and Other Strategic Priorities**

### **3.2.1 Customers:**

By design, the Municipal Auditing department is accountable to the City Council and reports directly to an Audit Committee composed of the whole Council. The department works directly with managers and employees throughout the City and School Division to identify and address organizational risks, fraud, waste and abuse. A complete listing of customers and their expectations identified in the development of this strategic business plan is contained in *Exhibit C*.

The department believes that most customers expect audit services to be delivered *timely*, and in a *fair* and *objective* manner by a staff that knows the customer's business and has expertise in the area of risks, controls, and legal and regulatory compliance. These service issues are of primary concern to the Auditing department and are prominently considered in the department's planned strategic actions.

### **3.2.2 Mandates:**

The department reviewed its mandates and evaluated all of them to be properly demanding of department resources. Municipal Auditing is in compliance with all mandates at this time. The department's primary mandates are as follows:

***City Charter, section 25.2*** requires the Municipal Auditing department to examine and audit all City accounts, books, and records that reflect transactions involving financial activities of the City. Among other responsibilities, the department is required to immediately report any unauthorized, illegal, or irregular act or practice discovered affecting or involving public funds or the financial affairs of the City. See *Exhibit A*.

***Virginia Board of Education Bylaws and Regulations, Student Activity Funds***, requires an annual audit of student activity fund records at each school by an Auditor appointed by the local School Board. The Municipal Auditing department audits the records and prepares the financial statements for Roanoke City Public Schools student activity funds.

***Sheriff's Accounting Manual issued by the Virginia Auditor of Public Accounts (APA)*** requires the records of the canteen and inmate funds to be audited annually. The Municipal Auditing department audits the records and prepares financial statements for the Sheriff's Canteen and Inmate funds.

***The Commission on Accreditation for Law Enforcement Agencies*** requires the Roanoke City Police department to have an audit of its cash fund records annually to qualify for accreditation. The Municipal Auditing department performs agreed upon procedures that evaluates controls over these funds and tests the accuracy of the records.

***The Virginia Auditor of Public Accounts (APA)*** is required by State law to annually audit the Clerk of the Circuit Court. The Municipal Auditing department performs ~ 50% of the audit program under the direction of the APA and in return the APA forgoes charging the City any costs for performing the audit.

***Institute of Internal Auditors, Code of Ethics*** requires the Municipal Auditing staff to adhere to specific rules of conduct in the areas of integrity, objectivity, confidentiality, and competence. See *Exhibit D* for the entire code.

***Government Auditing Standards (GAS) issued by the United States Government Accountability Office*** are the standards adhered to by the Municipal Auditing department.

### 3.2.3 Other Strategic Priorities:

The Auditing department's work *primarily supports the "Effective Government"* facet of **Roanoke City Council's Vision**.

#### "Effective Government":

As a support service, the Municipal Auditing department regularly works with departments throughout the City, including the offices of constitutional and appointed officials. The department also provides audit services to Roanoke City Public Schools. When evaluating operations and making recommendations, the Auditing department uses departmental and city objectives as the foundation from which it works. Municipal Auditing provides an independent and objective evaluation of the effectiveness of departments in providing services, which often results in changes to policies and procedures that improve performance.

**Vision 2020** is the City's comprehensive plan. The plan identifies plans for transportation, housing, etcetera that are drivers for planning local government projects and operations. As part of our audit planning process, we research those aspects of Vision 2020 that are supported by the area under audit. To the degree possible, we evaluate how well clients' have aligned their processes with the goals of the plan.

### **3.3 Mission, Key Businesses, and Key Business Activities**

#### **3.3.1 Mission Statement:**

Municipal Auditing seeks to enhance the performance and accountability of the City of Roanoke by working to ensure that our city government operates efficiently, effectively and ethically.

#### **3.3.2 Municipal Auditing Key Businesses and Activities:**

1. **Auditing:** Conducting financial audits to opine on segments of financial statements. Conducting performance audits to determine if departments are using public resources effectively and efficiently, the extent to which desired results are being achieved, and compliance with related laws, regulations, and grant provisions. Key activities supporting this business are as follows:
  - *Performing financial audits* required by State law and Board of Education regulations.
  - *Evaluating operations and systems* based on recognized business standards and standards of Federal, State, and Local government authorities.
  - *Collaborating with management* to develop action plans to address control concerns, operational concerns, and compliance issues identified during audit work.
  - *Reporting fairly, accurately, and timely*, the results and conclusions from audit work.
  - *Performing follow-up audit work* on outstanding concerns from prior audits to provide management and governing bodies with status reports regarding the resolution of outstanding concerns.
  - *Developing an annual audit plan* to allocate limited audit resources to those areas with the greatest need.
2. **Advisory Services:** Providing advice and education regarding the management of risks, development of controls, and compliance with laws and regulations as requested by management. Key activities supporting this business are as follows:
  - *Performing objective research and analyses* on performance, financial, and operational data for management.
  - *Advising management* about trends and changes affecting the control environments in which governments and schools operate.

- *Developing, publishing, and distributing guides* addressing how to develop components of a good system of internal controls.
  - *Presenting information to employees and managers regarding internal controls and risk management.*
3. *Fraud, Waste and Abuse – Identify and Mitigate:* Reducing the risk that fraud, waste and abuse will occur by promoting the establishment of a healthy control environment within the organization and by being attentive to signs of fraud, waste and abuse while conducting financial and performance audits. Key activities supporting this key business are as follows:
- *Investigating allegations of fraud, waste and abuse* received from citizens and employees.
  - *Using auditing software on an ongoing basis* to monitor city and school expenditures for risk factors indicating the possibility of fraud, waste and abuse.
  - *Brainstorming, ranking and evaluating risks* related to fraud, waste and abuse in the planning and evaluations phases of every performance audit.
  - *Performing audits of vendors and contractors*, as needed, to verify billings are supported and in accordance with the associated contracts.



### **3.4 Strategic Issues**

#### **3.4.1 External Environment:**

The department identified three opportunities when evaluating the external environment, as follows:

<b>Opportunities:</b>	<b>Description:</b>	<b>Department Options:</b>
New Technology	The City is moving toward more open, networked systems and away from mainframe applications. The City is implementing systems that capture more data, both performance and financial [asset management system, advantage 3 finance system].	City management will be relying on data as a basis for decision making. Testing the reliability of such data can add value for managers. Also, performance data will allow us to evaluate performance in ways we have been unable to do in the past because of the absence of data. Our department can improve our utilization of ACL with open systems to provide greater analysis and greater value.
Increased nation-wide focus on importance of internal control in both corporate and government environments	Corporate and government scandals in recent years have precipitated new laws designed to enhance accountability and control. The Sarbanes Oxley act requires corporations to document and evaluate their entire internal control system and to certify that they have done so on an annual basis. It is widely anticipated that the government will also be forced to adopt some form of Sarbanes Oxley due to the need for greater accountability in government finances and operations, as well as the perception that it is unfair to legislate such burdensome requirements for corporations and not require the government to adhere to higher standards.	Promote an understanding of internal control systems by developing printed guides and providing presentations on the subjects related to internal controls / management controls. Incorporate more compliance work into audit plans to ensure the city is focused on complying with laws and regulations, and is serving as good stewards of public assets.
Change in School Leadership	The Superintendent of Schools and other key leadership positions in the school division have recently turned over. This is anticipated to create a substantial shift in culture and structure within the division.	Develop a good relationship with school leaders in order to promote a healthier culture in the system and a structure that promotes effectiveness and efficiency.

The department identified two primary threats, as follows:

<b>Threats:</b>	<b>Description:</b>	<b>Department Options:</b>
Reduced Funding	An auditor position was eliminated in 2005 after it had remained unfunded for three years due to on-going city-wide budget cuts. Funds for training have been reduced by over 50% from levels in 1999.	Continue to evaluate staffing needs based on NALGA surveys and the department's strategic business plan. Stabilize and refine audit methodology in order to promote increased efficiency in our work. Encourage audit staff to take advantage of the tuition assistance program through HR to improve their skill sets. Attend local and Virginia based training that is sponsored by organizations in which we are members.
Loss of Experienced Staff	As auditors increase their accumulated knowledge of city operations and of city personnel, their performance is enhanced. When auditors leave, institutional knowledge is lost.	Create a work environment that is employee friendly & professionally enriching. Monitor pay and benefits and adjust as needed to remain competitive. Assign audits and other work in a manner that takes into consideration the personal interests and development needs of existing staff.

### 3.4.2 Internal Environment:

The department identified the following strengths during its review of the internal environment:

<b>Strengths:</b>	<b>Description:</b>	<b>Department Options:</b>
Charter and ordinance	Gives the department its authority to audit all records of the city and school division.	Continue to abide by and meet the responsibilities of the office as set out in the charter and ordinance.
Organizational and Reporting Structures	The Municipal Auditor is appointed by City Council and reports directly to the Council. This helps ensure the Auditing department is independent of all appointed and constitutional officers of the City. Under this structure, audit reports are by law public documents and cannot be shielded from the public.	Continue to promote the benefits of the current structure to current and future Council members. Protect the department's status as independent and objective by ensuring staff abide by policies addressing conflicts of interest. Continue to hold monthly meetings with Audit Committee Chairs to discuss department

		work. Continue to conduct quarterly Audit Committee meetings.
Staff Commitment to Fulfill Responsibilities	Staff believes in the purpose of internal auditing.	Continue to involve entire staff in developing department plans and audit methodology. Continue to issue meaningful reports that provide impact and instill pride in the staff.
Participation in Professional Organizations	The Auditing department supports staff member's participation in relevant professional organizations such as the National Association of Local Government Auditors (NALGA) and the Institute of Internal Auditors (IIA). Such organizations offer professional designations that require intensive study and experience to receive, as well as ongoing education to maintain. Our department believes this promotes competence and continuous learning.	Continue to support participation in professional organizations by providing 120 hours for professional development, reading journals, studying for certification. Continue to provide funds for study materials. Develop a plan for increasing base pay for those employees who achieve targeted professional certifications.
Professional Staff	Our staff includes two persons with masters degrees; as well as persons with a mixture of certifications, including certified public accountant, certified in internal auditor, certified information systems auditor, certified government auditing professional, certified professional secretary, and certified administrative professional.	Continue to encourage certification as a performance goal. Continue to fund study materials. Develop incentive to increase base pay for certifications.
Professional Standards	The department follows Government Auditing Standards promulgated by the US Government Accountability Office and adheres to the Institute of Internal Auditors Code of Ethics.	Continue to follow GAS and the Institute of Internal Auditors Code of Ethics.
Experienced Staff	Our staff currently has three auditors with five years or more experience with our department.	Request a classification review by HR in 2005 and every three to five years. Work with HR to develop

	<p>The remaining auditor has ~ 9 years experience in the city organization with 15 months auditing experience. Our Administrative Assistant has 15 years experience in the City and ~ 18 months in our department. Experience was found to be one of the key determinants of a high performance audit function in a study by VCU and the IIA in 2001.</p>	<p>ability to add to employees' base pay for achieving certification, advanced degrees, and experience milestones. Continue to offer a professional, respectful work environment with ample opportunities for personal and professional development.</p>
--	---	--

The department also identified four weaknesses that should be addressed, as follows:

<b>Weaknesses:</b>	<b>Description:</b>	<b>Department Options:</b>
No one on staff certified as a fraud examiner	The department continues to receive allegations of fraud, waste, and abuse. Investigations of such matters are sensitive and require a certain level of expertise to perform. Staff turnover has left us with no one on staff designated as a CFE.	Encourage at least one person on staff to pursue certification as a CFE. Reinstate our membership in the Association of Certified Fraud Examiners.
Individual Performance Standards are Inadequate to Properly Motivate Performance	The uniqueness of each audit assignment makes it difficult to evaluate an auditor's performance against standard measures. For example, an area may have significant issues that require additional time to resolve. Evaluations based on meeting budgeted hours or elapsed time penalize the auditor for taking longer even though he or she has no control over the time required in this situation.	Develop an audit score board that provides a mixture of measures that are balanced with regard to timeliness, quality, and customer service. These criteria will be used to score individual audits as they are being performed. Staff can use the score board to identify areas they may need to work on and as motivation to raise scores. The score board will <u>not</u> be used as an evaluation tool for the first year. If it proves to be a valid measure of performance and is well received by the staff it may be considered as part of the performance evaluation process in future years.
New Staff Orientation	New staff typically come in with little or no experience auditing and very limited understanding of the city's operations. The first	Create additional staff orientation steps, to include review of work papers using the NALGA engagement review work sheet.

	audit assigned to inexperienced auditors typically takes longer than normal and creates frustration for the auditor.	Have new auditors work under an experienced auditor for their first one to two assignments in order to get first hand experience under the guidance of experienced staff.
Continuous Change	Our auditing methodology has continued to evolve over the past five years. This has prevented the staff from achieving efficiencies typically realized as one gains experience with a process. It also creates greater risk that a standard will not be adequately addressed.	Create a process in which the methodology is only revised at the end of each fiscal year. Do not allow interim changes during the fiscal year. Ask staff to document proposed changes to the methodology and file them for consideration at year end.

### 3.4.3 Strategic Issues:

Based on the analysis above, the department identified the following strategic issues.

1. How can we enhance the value of the audit services we provide?
2. How can we maintain appropriate audit coverage within current budget constraints?
3. How can we most effectively ensure the organization complies with laws and regulations?
4. How can we support and encourage a more ethical work environment in which occurrences of fraud, waste and abuse are rare and unusual?

## **Section 4: WHERE DO WE WANT TO BE?**

### **4.1 Vision and Core Values**

#### **4.1.1 Vision:**

We want the City of Roanoke to have the most accountable and responsive local government possible, one that citizens can trust to use resources wisely and to serve their needs well. We view our department as a catalyst for change, uniquely positioned and entrusted with responsibilities for ensuring that our local government is efficient, effective and ethical.

#### **4.1.2 Core Values:**

Teamwork:	Achieve organizational goals through cooperative efforts.
Trust:	Maintain a positive and professional attitude when working with others.
Respect:	Show consideration and appreciation of the opinions, needs, and responsibilities of others.
Integrity:	Abide by an established code of ethics and professional standards.
Accountability:	Develop a plan, allocate sufficient resources, and monitor the results.

### **4.2 Strategic Goals**

- Provide information through our audit reports and management letters that is fresh, informative, and that has the power to influence management and governance decisions, thus enhancing the value of the services we provide.
- Achieve incremental improvements in the number of hours and days required to perform an audit thus increasing the number of audits we conduct and the timeliness of our reports.
- Prepare guides and presentations that promote sound internal controls; increase our efforts to disseminate this information to all employees and managers on a regular basis; pursue all indications of fraud, waste and abuse to the fullest extent possible, thus improving the understanding managers and employees have regarding the importance of sound internal controls and supporting an ethical work environment.

## **Section 5: HOW DO WE GET THERE?**

### **5.1 Strategic Objectives:**

#### **Issue #1: Audit Methodology**

The process used to conduct audits must support our compliance with government auditing standards and provide the most benefit possible for the time invested. The methodology must be designed to identify all material occurrences of fraud, waste and abuse. The methodology must drive our focus towards substantive issues that have real potential for improving operational performance, generating savings, and ensuring compliance.

**Goal:** To improve our design and execution of our audit methodology to ensure maximum benefit to the organization.

#### **Objectives:**

- Stabilize our audit methodology by requiring consistent application by all staff throughout the fiscal year. Effective 7/01/05 to be evaluated throughout the period through 6/30/06. Revisions to the methodology will be made at the end of each fiscal year.
- Continue to evaluate tools for documenting and evaluating detailed processes. Study business process mapping methodology by 6/30/06 for possible implementation in fiscal 2007.
- Perform audit work that is of a quality level sufficient to be submitted to the National Association of Local Government Auditors for consideration for the Knighton award. This award is given to one department annually based on a panel review of submitted audit reports. The award is made based on the audit demonstrating the most innovative methodology and substantial impact. Our goal is to place in the top 3 by June 30, 2007.
- Seek out feed back from management and Council regarding the effectiveness and quality of audit services, as well as suggestions for improvements. This will be done by continuing to have Council members complete a survey after each audit committee meeting and through personal meetings with management to obtain verbal feedback. Effective 7/01/05.

#### **Issue #2: Staff Development**

Staff training is an essential element to providing quality work and ensuring adequate levels of staff productivity. Given the limited size of the department, new staff must be

trained and productive within a few weeks in order for our audit plan to be achieved. The quality of the work produced by each staff member must also meet department standards regardless of the auditor's experience. Given our key businesses, the staff needs to have diverse backgrounds and expertise covering our department's areas of responsibility. This includes having people with public accounting, internal audit, information systems, and fraud examination expertise.

**Goal:** To sustain and enhance staff competency in support of our department's key businesses.

**Objectives:**

- Develop a program for training new auditors that ensures they adequately learn the standards and procedures followed in the department. Include provisions that ensure new auditors are closely supervised and mentored by other department staff their first year. Develop program by 6-30-06.
- Have someone on staff certified as a fraud examiner by 6-30-07.
- Create incentives for attaining relevant professional certifications by 6-30-06.
- Develop a more formal process for creating training plans for staff by 9/30/05.

**Issue #3: Staff Retention**

Studies on audit service quality indicate that experienced audit staff is a key indicator of quality work. In order to produce quality audit work, we must stabilize our staffing so as to limit turnover to infrequent and adequately spaced intervals. In order to accomplish stability, we must create an environment in which the department's work is meaningful, in which staff have ample opportunity to develop and advance, and where everyone feels valued.

**Goal:** Develop an environment in which employees are motivated by being engaged in meaningful work, supported in their professional and personal development, and where each employee feels valued.

**Objectives:**

- Develop job specific competencies that are meaningful and motivating by July 1, 2006.
- Develop structured advancement plan to allow auditors to achieve development goals without having to leave the auditing department. Target completion by July 1, 2006.



- Ensure competitive pay scale is maintained by periodically requesting that HR conduct classification reviews of audit positions. Target first review by 3-31-06.

#### **Issue #4: Audit Coverage**

It is not possible to conduct audit work in every department and division of the city and city schools every year, nor should it be necessary. Audits should be targeted to functions or areas which have significant risks of non-performance or non-compliance. Audit services that support and encourage an improved control environment and ethical climate across the organization should be identified and given high priority. This strategy should improve compliance throughout the organization and enable audit work to be conducted more efficiently and effectively.

**Goal:** To increase audit coverage within current budget constraints.

#### **Objectives:**

- Include audits in the annual plan that address issues that cross departmental and divisional boundaries so as to impact more areas without increasing or repeating work. Effective immediately and monitored annually.
- Develop one to two audit guides annually that summarize aspects of risks and controls into simple and basic terms that can be given to management for their use as a tool to improve their control systems and control environment. Effective July 1, 2005.
- Develop automated routines that provide regular analysis of expenditure and revenue data in order to provide some level of internal monitoring across the organization throughout each fiscal year. Establish at least one routine job using ACL each year starting fiscal 2006.

